

Message Text

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ORIGIN EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-06 FRB-03 INR-07 IO-10 NEA-10 NSAE-00 OPIC-03

SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01 STR-04

INRE-00 SS-15 NSC-05 SSO-00 NSCE-00 L-03 /101 R

DRAFTED BY EUR/RPE:WCLARK:LW

APPROVED BY EUR/RPE:EHPREEG

CEA-JDAVIS

FRB-HJUNZ

TREAS-JLISTER

EB/OMA-RRYAN

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O 092355Z JUL 75

FM SECSTATE WASHDC

TO USMISSION OECD PARIS IMMEDIATE

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E.O. 11652: N/A

TAGS: ECON, OECD

SUBJECT: PROPOSED GROWTH STUDY BY DISTINGUISHED ECONOMISTS

GROUP

REF: OECD PARIS 17485

1. WE ARE GENERALLY PLEASED WITH THE SECRETARY GENERAL'S NOTE C(75)116 AND ITS ANNEX CONTAINED REFTEL PROPOSING ESTABLISHMENT OF GROUP OF INDEPENDENT EXPERTS TO SUGGEST STRATEGIES FOR ACHIEVEMENT OF NON-INFLATIONARY GROWTH. AS MISSION IS AWARE, WE ATTACH CONSIDERABLE IMPORTANCE TO SUCH A STUDY AS PROPOSED BY SECRETARY KISSINGER IN THIS CRUCIAL AREA OF POLICY CONCERN.

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FOLLOWING ARE OUR SPECIFIC COMMENTS:

2. PARA 2 IN ANNEX ON GENERAL CONSIDERATIONS DESCRIBING NEW PROBLEMS FACING ECONOMIES OF OECD COUNTRIES SEEMS CAST

IN TERMS WHICH MAY BE TOO LIMITING, AND THEY COULD BE BROADENED. FOR EXAMPLE:

A. INFLATION. THE PROBLEM OF INFLATION IS NATURALLY NOT LIMITED TO ITS EFFECTS IN AREAS SUCH AS INCOME DISTRIBUTION AND RESOURCE ALLOCATION. OF PRIMARY CONCERN OF COURSE ARE

THE PROBLEMS WHICH HAVE CAUSED INFLATION IN THE FIRST PLACE. RESULTING UNDER-UTILIZATION OF CAPACITY MAY ALSO PUT DIFFERENT BURDENS ON DEVELOPMENT OF BOTH HUMAN AND PHYSICAL CAPITAL. (SEE ALSO PARA C BELOW ON INVESTMENT.)

B. PUBLIC EXPENDITURES. WHILE THERE MAY BE PROBLEMS RELATED TO PRESSURES FOR CONTINUED EXPANSION OF PUBLIC SERVICES, THERE MAY ALSO BE RISKS PRESENTED BY PRESSURES TO CUT BACK PARTS OF THE PUBLIC SECTOR AND PROBLEMS IN MAKING THE COMPOSITION OF PUBLIC EXPENDITURES SUFFICIENTLY FLEXIBLE, BOTH UPWARD AND DOWNWARD, TO MEET CHANGING NEEDS.

C. INVESTMENT. INVESTMENT PROBLEMS RELATE BOTH TO OVERALL RATES OF INVESTMENT AS WELL AS CHANGES IN THE INVESTMENT NEEDS OF DIFFERENT SECTORS SUCH AS ENERGY AND OTHER SECTORS, POSSIBLY INCLUDING FOOD PRODUCTION. IN ADDITION, THERE MAY HAVE BEEN STRUCTURAL CHANGES WHICH HAVE LED TO CHANGES IN THE RATIO OF HUMAN AND PHYSICAL RESOURCES USED IN PRODUCTION, SUCH THAT WE MAY GET IGNITION POINTS FOR INFLATION AT DIFFERENT LEVELS OF RESOURCE UTILIZATION CURRENTLY AND IN THE FUTURE THAN WOULD BE INDICATED BY PAST EXPERIENCE. FOR EXAMPLE, HIGHER RATES OF INVESTMENT MAY BE REQUIRED TO MAINTAIN THE SAME LEVEL OF EMPLOYMENT AND OUTPUT WITHOUT INFLATION IN A GIVEN SECTOR THAN IN THE PAST.

D. TERMS OF TRADE. THE PROBLEM OF SHIFTING TERMS OF TRADE LIMITED OFFICIAL USE
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SHOULD NOT BE MADE INTO A GENERALIZED DC/LDC MATTER. THE PROBLEM RELATES TO ALL SIZEABLE TERMS OF TRADE SHIFTS, PARTICULARLY THE SHIFTS ARISING FROM OIL PRICE INCREASES.

3. IN REGARD TO PARA 3 OF ANNEX I, A NEW AND HARD LOOK SHOULD BE TAKEN AT THE RECORD AND ROLE OF CONVENTIONAL POLICY INSTRUMENTS SUCH AS FISCAL, MONETARY, AND INCOME POLICIES. WHILE NOT IGNORING THE POWER OF THESE INSTRUMENTS, THE STUDY COULD ALSO LOOK BEYOND THEM TO NEW AND IMAGINATIVE APPROACHES TO POLICY PROBLEMS IF A REALISTIC APPRAISAL OF THE RESULTS OF THE USE OF CONVENTIONAL INSTRUMENTS SUGGESTS THAT MAJOR PROBLEMS WOULD STILL REMAIN UNRESOLVED.

4. US REP SHOULD SEEK CLEAR UNDERSTANDING THAT STAFFING ARRANGEMENTS FOR SUPPORT OF THE GROUP, -
-- SHOULD BE WORKED OUT IN A MANNER THAT IS MUTUALLY SATISFACTORY TO THE CHAIRMAN OF THE ECONOMISTS GROUP AND TO THE SECRETARIAT. WE DO NOT WISH TO LIMIT POSSIBLE USES OF OUTSIDE EXPERTS

OR CONSULTANTS. (FYI. WE WOULD NOT WANT SECRETARIAT RESOURCES DIVERTED FROM IMPORTANT COMPLIMENTARY BUT SEPARATE WORK OF EPC'S WP-2 ON GROWTH. LIMITED TIME SPAN OF WORK BY ECONOMISTS GROUP WOULD ARGUE FOR HIRING TEMPORARY CONSULTANTS FOR ITS STAFF WORK RATHER THAN JUSTIFYING PERMANENT INCREASE IN SECRETARIAT RESOURCES. END FYI.) IN THIS REGARD, LAST SENTENCE OF PARA 9, ANNEX ONE, C(75)116 MIGHT BE MODIFIED TO READ ALONG THE LINES "THE GROUP WOULD DRAW ON THE SECRETARIAT FOR SERVICING AND FOR ANALYTICAL WORK AND MAY ALSO WISH TO USE THE SERVICES OF OUTSIDE EXPERTS".

5. WE AGREE THAT TO ACHIEVE MAXIMUM FLEXIBILITY AND SPEED IN ADDRESSING POLICY ISSUES THE SIZE OF THE GROUP OF EXPERTS SHOULD BE LIMITED TO FIVE TO SEVEN MEMBERS AS SUGGESTED PARA 9 REFTEL.

6. IN REGARD TO THE WORK SCHEDULE WE ARE AGREEABLE TO THE SUBMISSION OF FINAL REPORT AT THE END OF 1976 OR EARLY 1977. HOWEVER, WE BELIEVE IT WOULD BE USEFUL FOR LIMITED OFFICIAL USE
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MINISTERS TO BE ABLE TO DISCUSS THE POLICY QUESTIONS INVOLVED AT THE NEXT MEETING OF OECD COUNCIL AT MINISTERIAL LEVEL IN THE LATE SPRING OF 1976. US REP SHOULD THEREFORE SUGGEST THAT SOME PROGRESS REPORT BY THE GROUP OF EXPERTS MIGHT BE MADE FOR THE CONSIDERATION OF MINISTERS AT THEIR NEXT MEETING IN THE SPRING.

7. PROFESSOR PAUL MCCRACKEN DOES NOT OBJECT IF THE SECRETARY-GENERAL WISHES TO MENTION HIS NAME INFORMALLY AT THE JULY 10 COUNCIL MEETING AS A POSSIBLE CHAIRMAN OF THE GROUP. INGERSOLL

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Message Attributes

Automatic Decaptoning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: RESEARCH, POLICIES, DIPLOMATIC NOTES, COMMITTEES, REGIONAL ORGANIZATIONS, POPULATION GROWTH RATE
Control Number: n/a
Copy: SINGLE
Draft Date: 09 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE161581
Document Source: ADS
Document Unique ID: 00
Drafter: EUR/RPE:WCLARK:LW
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: D750237-0669
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197507104/baaaaotx.tel
Line Count: 155
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 14 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 MAY 2003 by ShawDG>; APPROVED <14 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: ECON, OECD
To: OECD PARIS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006